



ECONOMIC VIEWPOINT

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What Can the Industrialized Countries Learn from Korea?

Much attention is now focused on South Korea because it is hosting the G20 Summit in November. The government has spent a lot of effort on preparations, particularly on the issue of development since as the first non-G8 chair of the G20 it sees itself shouldering a special responsibility for those not present. Perhaps this view is also heightened by Korea's own successful development experience. Interestingly, however, it is not only the poorer countries that can learn from Korea's economic management, but the rich as well.

Korea has managed not only to navigate the global downturn with a classic V-shaped recovery, quite a feat given the economy's degree of openness, but it has also managed, as a result of President Lee Myung-Bak, to position itself for future growth. Korea's "green growth stimulus" managed to combine classic Keynesian countercyclical spending with a strategic decision that Korea could successfully exploit a potential comparative advantage in the green technology field. The policy stance was enabled by a strong fiscal position going into the crisis and pro-active management of external debt and ample domestic liquidity. In addition to the policy's macro success, it is the micro policies that merit more examination.

A very significant feature was the decision by government to launch a green technology drive, betting that global demand for electric cars, solar energy, wind turbine technology, and smart energy was a growth sector. The drive followed the classic Korean formula of a public program led by research institutes and think-tanks, public spending with a signal to industry that government was supportive of this strategic direction and that a joint public-private effort was required. Korea's chaebols, the large and globally successful conglomerates, took their cues.

The major firms accelerated their efforts. Working in a coordinated fashion improves chances of success due to research spillovers and national support. When combined with vigorous competition at home and abroad, it has produced market success for Hyundai, Samsung, and LG!

Do we call this "industrial policy" and should we frown on it? Is this only possible in East Asia? Not necessarily. But it will require a different mind-set. The US has the green technologies, but it lacks the incentives needed to promote these industries. Why is the financial sector not providing credit to new industries like renewables? Credit growth in the US is currently negative and banks are avoiding finance for the real sectors. Where the Asians have an advantage is their ability to see the payoff to investing in the future. Their strategic thinking, guided by a longer-term vision, is paired with an ability to effectively combine private and public effort.

What is lacking in the US is a public-private partnership based less on lobbying for rents and more on strategic goals and common national interests. Europe is moving in this direction, although its Euro-resolve and national interests in champions often collide. Mired in a jobless recovery, with investment at an all-time low, the US seems lacking in effective policy instruments. Combining investment incentives with job creation could be part of the solution, if based on a viable strategic vision. The Korean model of strong tax collection, limited entitlements, high investment in infrastructure, and strong educational results seems to work. Threading these strands together, however, is a strategic view of where the economy can be globally competitive. This kind of thinking can provide lessons for others in the post crisis search for economic growth and new jobs. ■